

Hungarian Consulting Development Project

Final Report

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Enterprise Restructure and Revitalization – Building Hungarian Capacity
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I. Executive Summary

The ENI Bureau contracted with RONCO Consulting Corporation (RONCO) to implement Task Order #3 - Enterprise Restructure and Revitalization – Building Hungarian Capacity (Task Order). The Task Order activity was designed to contribute to the Bureau's strategic objective to stimulate the development of private sector enterprises in Hungary by enhancing their operating efficiency.¹

AID's assessment determined that private sector enterprises in Hungary (privatized and newly formed private companies) required the assistance of consulting firms to become competitive and/or viable.² The prohibitive fee structure of the top ranking local and international consulting firms operating in Hungary mitigated against small and medium private sector companies (SME) accessing the revitalization services they required. This, coupled with the belief that the next tier of mid-sized Hungarian consulting firms, while more affordable, lacked many of the skills required to provide effective enterprise restructuring services, resulted in AID contracting RONCO to develop the capability of the smaller and mid-sized Hungarian consulting and accounting firms.

RONCO achieved, and exceeded, all of the work requirements outlined in the Task Order.

The RONCO/Arthur Andersen (AA) team (the team) successfully completed the objective to develop the capability of Hungarian consulting and accounting firms to provide business restructuring, revitalization and operational assistance. They exceeded the target of working with three firms by 100%, strengthening six Hungarian consulting companies.

The RONCO/AA team, through its consulting partners, exceeded the objective of providing restructuring and revitalization services to twenty Hungarian medium sized companies, and provided services to twenty-one Hungarian companies.

The RONCO/AA team exceeded the objective to provide up-to-date, internationally accepted professional methodologies and software by creating an entirely new business consulting and management training toolbox, and made it available in a user-friendly CD-ROM format. The RONCO/AA team also conducted a series of weekly formal training sessions for its consulting partners utilizing the standardized toolkit methodologies.

The RONCO/AA team achieved the objective to develop the institutional capability of a Hungarian counterpart to provide longer term support to consulting companies and to make restructuring materials more broadly available by selecting, and working with, the Business Basics Foundation (BB) as the training counterpart. The team exceeded

¹ Enterprise Restructure and Revitalization – Building Hungarian Capacity, page 2.

² Ibid.

this objective by working with several local organizations that provide training to a broad range of businesses in the small and medium enterprise community, and also provided these organizations with the new CD-ROM format of the toolbox.

The RONCO/AA team exceeded the objective to provide broader outreach management training to at least 150 enterprise managers by providing training to 174 enterprise managers.

The remainder of this report outlines in greater detail: 1) RONCO's approach to the Task Order; 2) how this approach enabled RONCO to achieve the Task Order deliverables and objectives; 3) the tangible results RONCO achieved as of the close of the Task Order period; and, 4) conclusions and recommendations for future project activities of this nature.

II. Task Order Objectives and Deliverables

The Enterprise Restructure and Revitalization – Building Hungarian Capacity Task Order (Task Order) was signed on August 27, 1996. The RONCO team arrived in Hungary to begin work on February 22, 1997. The ENI Bureau’s objective of the \$1.8 million Task Order was to stimulate the development of private sector enterprises in Hungary by enhancing their operating efficiency.³ This would be accomplished by strengthening the capacity of Hungarian restructuring service providers (consulting firms) to provide revitalization and restructuring services to the Hungarian medium sized business sector.⁴

In order to accomplish this, AID contracted with RONCO Consulting Corporation to:

- develop the capability of three Hungarian consulting and accounting firms to provide business restructuring, revitalization and operational assistance;⁵
- strengthen the selected consulting companies (partners) by providing them with up-to-date, internationally accepted restructuring and revitalization methodologies and software as the partners provide consulting services to medium sized enterprises during the Task Order period;⁶
- develop the institutional capability of a Hungarian counterpart to provide longer-term support to Hungarian consulting companies and make restructuring materials more broadly available;⁷ and
- provide broader outreach management training to at least 150 individuals.⁸

The Task Order emphasized that the contractor was to focus on “capacity building” of the consulting companies (partners) as opposed to the direct delivery of enterprise restructuring services to SME end users.⁹ The Task Order outlined a methodology by which the contractor should accomplish the strengthening of the consulting companies. This methodology was to include:

- expatriate team members working with the consulting partners as the partners provide restructuring and revitalization services to at least 20 Hungarian medium sized companies;¹⁰ and

³ Task Order – Enterprise Restructure and Revitalization – Building Hungarian Capacity, page 2.

⁴ Op. Cit. page 2.

⁵ Op. Cit. page 1.

⁶ Ibid.

⁷ Ibid.

⁸ Op. Cit. page 6.

⁹ Op. Cit. page 1.

¹⁰ Op. Cit. page 2.

- formal training utilizing the standardized methodologies contained in the toolkit.¹¹

Through its team of experienced professionals, RONCO implemented the Task Order methodology to accomplish, and exceed, all of the work requirements and deliverables.

¹¹ Op. Cit. page 4.

III. Consulting Company Capacity Building

Selection of Consulting Partners

The Task Order stated that the consulting companies selected to participate in this project should be “100% committed and engaged to the learning process.”¹² It also specified selection criteria to define what constituted an eligible consulting company. These were:

- 100% private Hungarian ownership;
- significant and diversified experience, preferably in the corporate restructuring area;
- exhibit a willingness to receive outside help; and
- have a diverse client base.

The USAID/Budapest mission (the mission) informed the team at an introductory briefing in February, 1997, that due to high levels of unemployment, the mission was focusing many of its program activities on the northeastern sector of Hungary. Although not a qualifying factor, the team made efforts to incorporate this factor, to the extent possible, in selecting consulting company partners.

After making contact with the local business community, professional associations, and reviewing business directories, the team narrowed its list of potential candidates to 13. The team prepared a marketing presentation in Hungarian to explain the Hungarian Consulting Development Project (HCDP) program, and underscored the potential tangible results and obligations of a participating consulting partner. HCDP team members interviewed all of these firms to determine their suitability to participate in the program.

In addition to the selection criteria required by the Task Order, the team placed particular emphasis on evaluating each firm’s functional specialty, prior and current revenue base, number of past and present clients, the total number of employees, the number of employees available for the program, and the firm’s level of interest to participate in the program. The team also inquired as to whether the company had offices or clients in the northeastern part of Hungary, and whether the company had medium sized clients within its portfolio. The team selected six, rather than three, firms to join in the program. Table One on page 6-A presents summary information on each of the HCDP consulting partner companies.

AID approved the first four participating partners within the first four weeks of project start-up as required in the Task Order.¹³ Three more partners subsequently signed participation agreements. (Qualit-Invest replaced one of the original consulting partner firms, Euroexpert, in July.)

¹² Op. Cit. page 4.

¹³ Op. Cit. page 5.

Assistance and Support Provided

The team provided capacity building assistance to six Hungarian consulting firms throughout the Task Order period. The assistance that the team provided improved the consulting companies' capacity to deliver restructuring services to SMEs.

As specified in the Task Order, RONCO was to develop the capacity of the consulting companies to provide services, and work through them, rather than providing direct consulting services to end user firms. The team accomplished this training and skills transfer primarily through 'hands-on' assistance by working directly with the consulting partners through the consulting process.

Each partner was 'teamed' with one of the HCDP expatriates and a Hungarian in-house counterpart. Team members worked directly with consulting partners at every stage of the consulting process. This included work with the consulting partners prior to the marketing of services to potential end users, and continued through completion of consulting assignments.

Consistent with the Task Order's requirement that the contractor focus on capacity building versus direct delivery of enterprise restructuring services, HCDP's support was designed so that the consulting partners remained the primary service providers for the restructuring and revitalization projects.

The RONCO/AA team provided a wide range of capacity building support to the six consulting partners in order to strengthen the partners' ability to provide an improved, and broader range of revitalization and restructuring services to SMEs. RONCO/AA assistance included:

- Self-assessment – Initially a number of the consulting partners needed to assess their own strengths and weaknesses, as well as opportunities and threats in their markets to better understand their own internal goals and strategies. The HCDP team prepared a self-assessment methodology to assist the consultants in this process, and discussed and critiqued the results. The partners used the results of this assessment to define the market they should pursue, their competitive advantage, threats to further growth, and additional resource requirements.
- New client prospects – HCDP assisted consulting partners to identify new sources of potential clients to whom partners could market consulting services. Markets for particular types of consulting services were defined, sources of potential client names were identified (e.g., trade associations, professional organizations, government records, personal contacts), and contact programs were established. A "pipeline" report was prepared by HCDP on a weekly basis to monitor progress made by the consulting partners in identifying potential clients, and their success in moving potential clients to the proposal and contract stages. HCDP team members also independently identified new client leads, and forwarded these to consulting partners.

- Marketing information and presentations – HCDP worked with consulting partners to develop materials for partners to use to market consulting services to potential end users. Materials included individual consulting company brochures, a presentation highlighting tangible results that participating end users could achieve, and a discussion of the consulting process.
- Client solicitation – HCDP team members worked with consulting partners to improve presentation skills in order for partners to successfully market services to potential clients. HCDP training included how to make contact with a potential customer, how to sell services, and how to close a deal. In addition to the solicitations made by consulting partners, HCDP team members also solicited potential end users, and forwarded any promising leads to consulting partners. Some of these contacts were identified through SME business organizations, such as the Hungarian Foundation for Enterprise Promotion, whose membership subsequently received training under the HCDP program. Follow-up by consulting partners with these organizations in the future should lead to additional consulting work.
- Proposal development and review – All the consulting partners needed to improve their proposal preparation. HCDP conducted a training session early in the program to define the key sections of a well-written proposal, to standardize formats (e.g., resumes, project descriptions, standard methodologies, etc.), and to ‘professionalize’ the actual submission. HCDP team members critiqued almost all of the proposals that consulting partners prepared. In most instances where HCDP suggested changes, consulting partners revised proposals to incorporate these revisions prior to submission to the potential client. HCDP team members reviewed approximately 45 proposals that consulting partners subsequently submitted to potential end user firms. The team continued to review proposals and provide input to partners on proposal submissions even for end user firms that were not potential HCDP participants.
- Presentation and meeting planning – HCDP worked with consulting partners to improve presentation planning and presentation styles when conducting workshops for clients, and to improve the client’s participation and implementation of action plans. Team members worked closely with partners to improve their effectiveness in communicating key concepts and promoting client ‘buy-in’ as part of the presentation process.
- Formal training programs – HCDP personnel, both expatriate and Hungarian, prepared and delivered a total of 31 half-day, HCDP Toolbox based, training seminars to the consulting partners. These sessions were held on an almost weekly basis throughout the life of the project at HCDP’s offices. The primary purpose of this training was to: improve the consultants’ skills to develop, conduct, and manage consulting assignments; develop their skills with regard to specific analytical techniques; and, familiarize the consultants with the contents of the HCDP Toolbox so they could utilize it to the maximum extent. Table Two on page 9-A provides a complete listing of the topics covered during each of the training sessions.

- Direct client interface – HCDP personnel participated in meetings directly with the partners’ potential or actual clients. While team members ensured that the consulting partner took the lead in these sessions, there were opportunities for HCDP expatriate personnel to intervene with, and on behalf of, consulting partners, and provide guidance on particular client issues based on a wide range of prior experience. Team members were able to lend additional “weight” and credibility to the efforts of the consulting partners to win a new client or to convince a client of a particular course of action. These meetings also provided team members with an opportunity to observe the performance of the consulting partners, and later provide input to partners on improvements for future work, as well as citing methods that worked well.
- Consulting project review sessions – Considerable skills transfer occurred throughout the entire Task Order period during the innumerable informal sessions between the consulting partner firms and their HCDP expatriate and Hungarian counterparts. These roundtable discussions covered a variety of topics such as strategies for marketing services, expanding contact lists, proposal development, contract management, resolution of technical business problems, promoting client acceptance of findings and recommendations, action plan development and implementation, and final report review, among others. Client management was an important topic during many of these sessions as partner firms learned how to manage their clients’ expectations regarding the contracted scope of services, while at the same time, ensuring the clients’ satisfaction.
- Standardized methodologies – The HCDP Toolbox is discussed in more detail in Chapter V of this report. However, as part of the skills transfer process, the standardized methodologies did form the basis of the weekly training sessions referred to earlier. These methodologies were also employed by the consulting partners as a technical resource to resolve project development, management, and implementation issues that arose during the course of their consulting assignments.
- Financial support – HCDP paid the base salary for an average of 2-3 individuals from each of the six consulting partner firms. These consultants were paid for time spent on HCDP consulting assignments. This financial support enabled the consulting partners to discount the cost of their services, thereby increasing the number of medium sized clients to whom they solicited their services. This ‘discount’ also enabled consulting partners to offer clients a new and broader range of services, without the client assuming the consultants’ learning costs in these new skill areas.

TABLE TWO

HCDP WEEKLY TRAINING SESSIONS

APRIL 21, 1997 – DECEMBER 18, 1997

1. HCDP Toolbox Overview
2. Conducting Interviews in the Course of a Consulting Assignment
3. Identifying, and Marketing Services to, Potential Clients
4. Standardized Approach to the Consulting Process
5. Review of Financial Models
6. Managing Change within a Client Firm
7. Business Process Re-engineering
8. Strategic/Organization Assessment
9. How to Incorporate New Companies Into Your Prospect Pipeline List
10. How to Conduct a Successful First Meeting
11. How to Prepare and Present Effective Proposals
12. Assessing Your Company's Scope of Consulting Services and Expertise
13. Re-engineering Business Processes
14. Distressed Company Restructuring Process
15. Company Revitalization Process
16. Corporate Governance
17. Market Based Business Planning
18. Total Quality Management in Business Operations
19. Business Planning Tools
20. Data Collection Tools
21. Total Quality Management
22. Management Information Systems
23. Revitalization Through Quality Processes
24. Implementation Action Planning
25. Quantifying and Documenting Measurable Client Improvements
26. Innovative Marketing
27. Marketing Communications
28. Advertising and Promotion
29. Market Research
30. Pricing as an Element of Marketing
31. Strategic Marketing Planning

Tangible Results Achieved

RONCO's capacity building assistance resulted in specific tangible results within each of the HCDP consulting partner firms. Consulting partners identified these specific changes and improvements to the ways in which they now transact many phases of their consulting assignments and to their overall business operations. The information below highlights the key tangible results that each HCDP consulting partners achieved due to RONCO skills transfer and capacity building assistance.

AAM

AAM realized the following tangible results:

- AAM is now an active provider of consulting services to the SME business community in Hungary. AAM previously worked almost exclusively with large clients. Only a small portion of its client base included SMEs, although AAM did recognize the importance that the SME sector could contribute to the firm's continued growth. HCDP provided AAM with a disciplined entry into the SME market. Having worked now with several SMEs during the marketing, proposal, and consulting project implementation phases, AAM has a much better understanding of how the SME market functions, and how they must alter several of its strategies in order to effectively solicit consulting business from other SME clients. This is reflected in a different strategy that AAM is designing to attract new SME clients.
- AAM successfully penetrated the market to provide consulting services to SMEs as a result of the financial support provided to AAM by HCDP. As a firm previously servicing larger clients, AAM's fee structure was too high for most SMEs. With the HCDP support, AAM was able to lower its rates, win assignments with three SMEs, and gain experience with clients in this market. AAM now clearly understands that its existing fee rate structure is a hindrance to its expansion in the SME consulting market, and it is designing strategies that reflect a different range of consulting service offerings based on a price that the SME market will pay.
- AAM's proposals are now much more fully developed with the understanding that these have a major impact on winning projects. AAM did not previously assign great importance to proposals and their content. Proposals only represented a summary of the agreement already reached with the client, typically one with whom there was an existing long-term relationship. Now, with increasing competition and the need to provide more detail to potential SME clients, AAM has expanded its proposal content and is spending more time on proposal preparation. The training and informal critiquing provided by HCDP was helpful in this process.
- AAM consultants enhanced their skills to focus on the SME sector as a result of the HCDP training programs. While AAM consultants had previously been exposed to many of the training topics, the focus on SMEs in the HCDP sessions was particularly helpful. The "workshop" style of the training, along with the extensive use of

examples, discussion of personal experiences by the HCDP expatriate staff, and the opportunity to exchange experiences with other local consultants gave AAM an understanding of the particular needs of SMEs, versus those of larger clients.

- AAM believes the HCDP Toolbox is a useful compendium of proven consulting techniques. Although many of the topics were not new to AAM consultants, they believe the Toolbox is a practical and easy-to-use summary of proven analytical techniques. They are using the Toolbox materials in both internal and external training programs.

Argumentum

Argumentum realized the following tangible results:

- Argumentum experienced an improvement in its internal operations and growth. Argumentum began to apply some of the marketing and business growth solutions it recommends to clients to its own business operations. The company implemented new business development opportunities more vigorously. As a result, Argumentum's revenues grew by 50% in 1997. The company networks with a broader range of organizations and companies as a means to develop new business opportunities. It has also begun to encourage employee education as a means to improve services it offers to clients.
- Argumentum standardized its proposal format. As a result of HCDP training in proposal development, Argumentum standardized the format it uses to prepare proposals for potential clients. Rather than 'creating' a new proposal each time, Argumentum now uses the same format, and adds additional segments on an as-needed basis to address the requirements of the targeted client. Using a standardized format enables Argumentum to prepare a far greater number of proposals within a shorter time frame. This results in a higher conversion rate (i.e., proposals won), which is the essence of a consulting company's ability to generate additional revenues.
- Argumentum's proposal format now defines the deliverables it will provide to its clients, and includes interim review and approval sessions with the client during the consulting assignment. Previously Argumentum's proposals offered the client a brief summary of the work to be done, and specified that Argumentum would provide a final report. Argumentum reported a number of instances in which there were discrepancies between the client's expectation of the final product and Argumentum's. As a result of specifying the deliverables in its proposals, and incorporating interim review sessions, Argumentum's clients are now part of the consulting process. This significantly reduces client confusion and disagreement. Clients are included in the problem identification and problem resolution phases. This enables clients to better understand what Argumentum is recommending as a solution, and why. This benefits Argumentum and its clients, as the latter are far more likely to implement the solutions if they understand how these were developed.

Specifying the deliverables enhances Argumentum's ability to explain, and for the client to understand, exactly what is included in the contract, and what is outside its scope. This reduces the likelihood of disputes and limits potential cost overruns.

- Argumentum now includes project timelines which provide for improved project management and more accurate pricing. As a result of HCDP assistance, Argumentum now includes project implementation timelines in its proposals. This accomplishes a number of positive results for Argumentum. It enables the consultants to better identify and plan the range of activities they must complete during the assignment. It also improves Argumentum's contract management, and ensures that it has available the necessary consulting skills required to complete a range of assignments. Preparing a project timeline also disciplines Argumentum, as it serves as a measure of time spent versus revenue generated.
- Argumentum improved and expanded the range of business technical skills it is able to offer to clients. As a result of HCDP assistance, Argumentum no longer views the company only as a marketing consulting firm. Argumentum is able to offer a wider range of services to potential clients, thereby enabling the company to solicit business from a larger range of clients. The consultants have developed more confidence in their abilities to solve a broader range of revitalization consulting problems, and to work closely with their clients in the resolution of these.
- Argumentum utilizes the HCDP Toolbox to design and conduct training workshops for its clients. The HCDP Toolbox contains methodologies and approaches that Argumentum utilizes for training to educate management and employees within its client group. This training often serves to support the actions that Argumentum develops for its clients, and assists client management to gain employee support to implement change.

Confidence

Confidence realized the following tangible results:

- Confidence expanded the range of sources it utilizes to identify potential clients, and more aggressively markets its services to this new audience. Confidence previously relied almost entirely on personal contacts for new clients. As a result of assistance from HCDP, it now utilizes other sources to research and identify new business prospects and opportunities, e.g., trade and professional associations, industry economic reports, government statistics, trade shows, conferences, etc. Confidence better understands how to approach potential clients, and now takes a more aggressive approach to generating new business.
- Confidence adopted a reorganized proposal format, thereby significantly reducing its proposal preparation time. Based on proposal review provided by HCDP, Confidence understands the value of a well planned proposal. It now utilizes a standardized

format that demonstrates its understanding of the client's business, presents a logical approach and scheduling, and emphasizes the value added by the consultant. Standardized formats are enabling Confidence to prepare a larger number of proposals, thereby improving its proposal conversion ratio and increasing the level of business it conducts.

- Confidence's data collection activities are more efficient and effective. As a result of project planning reviews with HCDP, Confidence now takes more time to plan data collection activities and to discuss these with the client. This enables Confidence to complete this phase of the consulting assignment in a more focused and comprehensive manner, thereby maintaining project schedules. Confidence is making greater use of interviews with a wide range of managers, as well as with customers and suppliers. Confidence now also incorporates market research into its data collection activities. The efficiencies and wider scope of services Confidence includes in its consulting projects improve the quality of work completed and help to contain project costs.
- Confidence greatly improved its project management. Confidence now properly utilizes the proposal document, particularly the approach and timeline schedule, as the primary basis by which to manage the implementation of a consulting project. As noted above, Confidence allocates more time to the planning phase of a consulting assignment, thus improving the successful completion of the work. Confidence also understands the need to include the client in the consulting process, thereby improving the client's ability to understand the need for changes, and the likelihood that the client will adopt the changes.
- Confidence identifies "quick wins" to promote client satisfaction and build project momentum. Confidence now places greater emphasis on categorizing recommendations as being of immediate, medium, or long term benefit. It gives particular attention to improvements that the client can adopt quickly and at little cost. This facilitates client recognition of the 'useful assistance' that the consultant is providing, and enables Confidence to offer solutions to the client throughout the consulting assignment.
- Confidence developed a much clearer understanding of its own strategy as a consulting firm. With the assistance of HCDP, Confidence conducted a self-assessment (SWOT analysis) of its corporate position in the marketplace. On the basis of this analysis, the firm developed its own strategic plan for the next two years, identified resource requirements, and clarified target markets for new business growth.
- Confidence consultants considerably enhanced their technical skills and understanding of the consulting process. Confidence consultants found the HCDP training programs to be instructive and practical, particularly with regard to relatively new topics for the Hungarian market, such as change management and the use of

customer and supplier surveys. Perhaps most importantly, they learned and developed a more systematic approach to consulting assignments. They no longer view the consulting process as a disjointed series of tasks (i.e., proposal, data collection, project management, report writing, etc.), but now understand the integrated nature of this process from beginning to end.

- Confidence believes the HCDP Toolbox is a useful resource. Confidence uses modules from the Toolbox to develop presentations to clients. Consultants are incorporating many of the data collection techniques and formats, such as the client survey, into their consulting process.

Gordius

Gordius realized the following tangible results:

- Gordius improved its ability to create solutions for clients' problems. As a result of HCDP training sessions, Gordius consultants improved their ability to identify problems within a client company and create solutions. HCDP Toolbox training sessions often utilized case studies as a means by which consulting partners would logically think through situations, identify problems, and develop solutions. Gordius now applies this thought process to its own consulting projects.
- Gordius expanded the range of consulting services it offers to clients. The training that Gordius consultants received within the scope of the HCDP project enables the company to market a broader range of services to potential clients. This should result in increased business for the firm as it offers new services to existing and new clientele.
- Gordius expanded its range of consultant networking. The weekly HCDP sessions provided Gordius with the opportunity to discuss ongoing consulting projects, and share solutions and insights to resolve problems it was encountering with clients.
- Gordius utilizes the HCDP Toolbox as a consulting tool. Gordius utilizes the methodologies included in the HCDP Toolbox to conduct its consulting assignments. Gordius applies and incorporates a number of the data collection tools into its consulting projects.
- Gordius improved its ability to market services to clients. As a result of HCDP assistance, Gordius revised the way it views particular consulting assignments. Rather than simply proposing initial survey audit services to potential clients, Gordius now develops proposals that incorporate a range of services, financial and otherwise, within the scope of one contract. This has reduced the number of proposals Gordius prepares per client, at the same time increasing the range of services it offers. This results in reduced proposal development costs and increased revenues per contract.

MACRO

MACRO realized the following tangible results:

- MACRO expanded the sectors in which it markets services. As a result of a self-assessment MACRO conducted with HCDP assistance, MACRO determined that it needed to revise its marketing strategy. Formerly MACRO only targeted companies that exported as potential new business opportunities. As a result of more Hungarian companies gearing production for the domestic market, MACRO recognizes that these firms also offer a significant opportunity to expanding its client base. HCDP worked with MACRO to target the Hungarian medium sized business sector.
- MACRO now offers a broader range of services to its customers. This corporate self-assessment also led MACRO to incorporate additional consulting services in its range of offerings to potential customers. These new services are a direct result of HCDP assistance. Some of the new services include Business Process Re-engineering and Re-engineering with Total Quality. MACRO is utilizing a significant amount of the relevant modules from the HCDP Toolbox as it expands into these new service areas.
- MACRO now incorporates training sessions for management and employees into its proposals. Because of proposal reviews provided by HCDP, MACRO now appreciates that an essential element of any successful consulting assignment requires client management and employees to understand the benefits from cooperating with, and participating in, a consulting project. In the past, MACRO frequently encountered resistance from employees in client companies while trying to complete consulting projects. MACRO significantly reduced this problem by including information and training sessions for client employees and management prior to the start of, and during, a consulting project. MACRO also includes management and employee representatives on a project management committee as it conducts an consulting assignment.
- MACRO believes the HCDP Toolbox is a useful tool to conduct training sessions. MACRO utilizes the Toolbox to conduct introductory training sessions for client firms, and also uses the Toolbox as an effective means to train clients' employees in the areas of customer service, sales, and marketing.

Qualit-Invest

Qualit-Invest realized the following tangible results:

- Qualit-Invest restructured and streamlined its proposal format. Qualit-Invest now includes a cover letter to the client along with the proposal, summarizing the benefits

of the proposed consulting assignment. Qualit-Invest also presents its approach to the consulting project in a more concise format, making it far easier for a client to understand the services offered. It has developed a phased approach so that the client can understand the costs of the consulting project at each stage of the assignment. Qualit-Invest also includes a more understandable time schedule and CVs of the relevant consultants.

- Qualit-Invest reduced proposal preparation time from three days to one as a result of utilizing a standardized proposal format. In addition to making the changes noted above, Qualit-Invest incorporated assistance from HCDP and standardized, to the extent possible, its proposals for all types of consulting projects. It prepared “boilerplate” sections, and incorporates these into its proposal format. This enabled Qualit-Invest to significantly reduce proposal preparation time, as well as to permit more junior consultants to prepare most of these documents, thereby greatly reducing proposal preparation costs and providing in-house skills transfer.
- Qualit-Invest greatly improved its project management capabilities. Qualit-Invest now spends a greater amount of time in the project planning phase to properly define and schedule activities. Qualit-Invest reviews these regularly throughout the course of a consulting assignment, particularly after a visit to the client. Qualit-Invest now communicates and discusses the updated schedules with the clients. This has resulted in a visible improvement in clients’ understanding of how the assignments are progressing, and has facilitated project implementation. Qualit-Invest’s regular reviews of project timelines is also improving its financial management of consulting assignments.
- Qualit-Invest consultants improved their skills through HCDP training programs. Qualit-Invest consultants found the exposure to the HCDP training topics a useful review of information that they now apply on a more practical basis in their consulting work. The more junior Qualit-Invest consultants greatly benefited from the sessions on how to be a consultant, and the consulting process.
- Qualit-Invest is utilizing the HCDP Toolbox materials for training courses. Qualit-Invest conducts a range of training courses for its junior staff and clients utilizing modules from the HCDP Toolbox.
- Financial support from HCDP enabled Qualit-Invest to strengthen its consulting staff and expand service offerings. Qualit-Invest hired two additional consultants, a portion of whose salaries were sponsored by HCDP for time worked on HCDP projects. These consultants brought new skills to Qualit-Invest. They have enabled the firm to offer a more integrated service package, including new services in the areas of bookkeeping and financial control/management for small clients. Furthermore, these additional resources have enabled the Managing Director to focus more of his time on managing the firm, developing a longer-term strategy, and attracting additional clients.

- As a result of HCDP assistance to attract and win new clients, Qualit-Invest's revenue increased 30% in 1997.

Achievement of Tangible Results

The tangible results outlined above represent only the most immediate gains. Consulting partners will continue to utilize their improved and expanded range of skills long after the Task Order period. Though the Task Order is now completed, a future measurement of tangible results will most certainly reveal more evidence to document the skills transfer and capacity building results that the RONCO/AA team achieved.

All of the partners view their corporate growth and development prospects positively, and believe they have a significant competitive advantage over other consulting companies due to their HCDP experience. Most of them have brochures or other marketing materials that reference their involvement with this project. This will enable each of the consulting partner firms to better position themselves in the future, and remain competitive as the local consulting industry develops further.

The RONCO/AA team achieved the Task Order objective to develop the capability of Hungarian restructuring providers to provide business revitalization and operational assistance to the Hungarian SME community. The evidence also indicates that these consulting companies will continue to thrive beyond the Task Order period, thereby continuing to offer a better quality and expanded range of advisory services and technical assistance to the Hungarian private business sector. The assistance that these consulting companies provide will continue to stimulate the development of private sector enterprises in Hungary, enhancing the SMEs' operating efficiency.

HCDP consulting partners strongly endorse the belief that the SME business community will continue to serve as a major source of their revenues in the years to come. This was one of the primary reasons why the consulting partners were anxious to participate in this project.

The following chapter of this report outlines in detail results that the end user companies achieved through the assistance of the HCDP consulting partners. This provides evidence that HCDP consulting partners have contributed to the improved operating efficiency of Hungarian medium sized businesses, which was the objective of this Task Order.¹⁴

¹⁴ Task Order – Enterprise Restructure and Revitalization – Building Hungarian Capacity, page 2.

IV. Restructuring and Revitalization Projects

Selection of End User Firms

The Task Order required the contractor to apply certain selection criteria to determine a client firm's (end user) eligibility to receive consulting assistance within the scope of this project. These criteria were:

- 100% Hungarian and privately owned;
- a minimum of 50 full-time employees;
- a maximum of 300 full-time employees; and,
- a probability of successful implementation of the recommendations made by contractors and restructuring providers.

RONCO and the consulting partners adhered to these criteria throughout the Task Order period. In a few instances, with the concurrence of the mission, some flexibility was agreed in regard to the ownership (some minor foreign ownership was permitted) and the number of employees.

As noted in the preceding section, HCDP worked closely with the consulting partners to:

- generate contacts with potential clients;
- prepare presentations to these clients;
- accompany the consulting partners to initial client meetings;
- assist consulting partners in identifying client needs; and,
- prepare high quality proposals.

During the life of the project, HCDP and the consulting partners had approximately 100 potential end user firms in its "prospect pipeline". This meant that consulting partners were actively pursuing these end users through a program of mailings, telephone solicitations, meetings, proposal writing, and negotiations. Through this process, HCDP consulting partners contracted with a total of twenty-one end user firms to which they provided restructuring and revitalization services. Table Three on page 19-A provides a summary of these end user firms and the consulting assistance they received.

Typical Project Phases

While the objectives and technical requirements varied for each of the twenty-one end users, HCDP trained its consulting partners to conduct each assignment utilizing a standard five-phase methodology. This included:

- Project Implementation Planning – Upon signing a contract, and prior to the actual start of a consulting assignment, HCDP team members worked with consulting partners to:
a) thoroughly review the services that partners would complete within the scope of the contract; b) review the timeframe to complete each of the activities; and, c) ensure that appropriate resources were in place to commence the assignment.

- **Data Collection** – The first major phase to begin a consulting assignment requires the collection of information from key managers, employees, customers, and suppliers. The consultant utilizes the information gathered during the data collection phase to identify problem areas within the end user firm. As part of the training process, HCDP provided consulting partners with standardized formats of questionnaires that the partners utilized during the data collection process. HCDP also offered training to consulting partners in how to conduct an effective interview.
- **Data Analysis** – Once the consultant completes the data collection phase, the next major effort comes in reviewing the information for completion and accuracy; measuring this client specific information against industry standards; comparing the information to perceptions within the end user firm; and making determinations as to where there are key discrepancies between the actual and the perceived, why these discrepancies exist, and how to resolve them. HCDP worked very closely with consulting partners, and utilized the expatriates' range of technical experience, to provide broader interpretations of information and input to identify problem areas and develop solutions.
- **Recommendations and Action Plans** – Consultants are hired not only to identify problems, but to resolve them. HCDP worked with consulting partners to create solutions to the problem areas identified. There are two important aspects of this process. The first was to be certain that recommendations and action plans reflected the areas of remediation agreed upon in the contract. The second was that the solutions offered by consulting partners reflected analysis of the data and information gathered in earlier phases of the assignment, rather than reflecting consultants' personal opinions not founded in hard data and evidence.
- **Implementation** – Once consultants provide solutions to the end user, the consultant must work with the firm to implement the solutions offered. This is useful to the client, as implementation is the real measure as to whether the money paid to the consultant is worthwhile. It is useful to the consultant as it offers an opportunity to demonstrate to the client that following the consultant's advice will provide tangible results to the end user. Tangible results for the end user often result in additional work for the consultant.

Tangible Results Achieved

As a result of the assistance from HCDP, consulting partners achieved tangible results with each of the end user companies that received consulting assistance within the scope of the Task Order activity. These results are summarized below.

AAM

Pharmco

Pharmco is a newly formed pharmaceutical wholesaler headquartered in Budapest, with a number of regional offices. The company was established in 1997 through the merger of

three former county medical distributors. The company's turnover in 1997 was HUF 5.9 billion,¹ and it has 369 employees.

Pharmco hired AAM to assist in successfully merging the three companies. The objectives were to assist management to establish a strategy for the merged company, develop a concept for the reorganization and restructuring of the three companies into a merged entity, and prepare an orderly plan which management could use to implement the merger and restructuring.

AAM achieved the following tangible results for Pharmco:

- The most important tangible result for this assignment is that the three regional pharmaceutical companies were successfully merged into one. The AAM merger plan is being used throughout the implementation process.
- The purchasing, logistics, information technology, and controlling/accounting functions were reorganized, and Pharmco eliminated duplications. This should result in substantial cost reductions. Pharmco established centralized functional units, and developed and implemented revised work processes and procedures.
- While the information system is not yet fully integrated, there is already a better flow of information between headquarters and regional offices.
- AAM identified overstaffing in certain human resource areas, and Pharmco is implementing staff reductions.
- Pharmco centralized its cash management for greater financial efficiency.
- Pharmco is reorganizing its sales function. It is establishing new sales centers, and developing revised sales procedures and customer categories.

Gamax

Gamax Kft. is a Budapest based company involved in software design, development, and testing. Its current projects are mainly for clients based in the United States and Western Europe, with efforts underway to break into the Japanese market. The company has 32 employees and 1997 turnover was estimated at HUF 1.0 billion.

In recent years Gamax hired a significant number of new employees and broadened the scope and variety of its assignments. Management believed that the company's administrative and business structures were no longer adequate to effectively operate the firm. Gamax hired AAM to assist management to rationalize the administrative processes (including finance/accounting, procurement and human resources) for greater effectiveness and improved information.

AAM achieved the following tangible results for Gamax:

¹ At the time of this writing \$1US = 202 HUF.

- AAM mapped out, analyzed, and revised the company's administrative system. AAM documented the results of this evaluation, including new working models and procedures, and prepared a detailed action plan. Gamax began to implement the new procedures under AAM's supervision. Gamax is expected to complete the implementation by June, 1998.
- Gamax will more efficiently plan and control individual software development projects as a result of implementing the revised administrative system. Furthermore, the company will be able to more accurately measure the performance of individual projects.
- Gamax' management will have a much better picture of the company's business situation as a result of these improvements to the administrative procedures. Information flow and effectiveness will significantly improve, and this facilitates improved decision making, including the ability to control costs.
- Gamax will better coordinate and control procurement procedures. AAM estimated this should result in cost reductions of approximately 8%.

Promo Trade Development Kft.

Promo Kft. operates in three business areas: advertising agency, exhibition organization, and trade fair representation. Promo is based in Budapest and has 54 employees. Its estimated revenue for 1997 was HUF 1.2 billion.

In its efforts to expand the company's business activity, management recognized a lack of adequate information to determine the effectiveness of the three profit centers, as well as the profitability of individual projects and accounts within the profit centers. Promo hired AAM to create new management procedures and internal controls for the company, establish methods for measuring costs and performance, introduce a new financial control system, and plan a new management information system.

AAM achieved the following tangible results for Promo:

- AAM completed mapping of the work and information flows and the internal business procedures. They revised these procedures to support management's increasing information needs. AAM reorganized current procedures, and developed new business models, a cost and performance measuring system, and a management information system. These now form the core of Promo's management control system.
- AAM documented the restructured procedures, and delivered an action plan. Promo commenced implementation of the system under AAM's supervision. Promo expects to complete implementation of all system elements by March, 1998.
- This improved management control system will enable Promo's management to measure the performance and effectiveness of each profit center. Promo will be able to measure the profitability of individual projects and consultants.

- AAM incorporated a cost measurement feature into the new system. This improved planning should reduce costs by 10%.
- AAM revised the pricing system, and Promo began to implement it. Once Promo completes implementation of this system, pricing levels are expected to rise by up to 5%. This should result in higher profits.

Argumentum

Bar Code

Bar Code is a Budapest based company that distributes and installs bar code scanning equipment and labels for a wide range of products and customers. The company also develops software applications for specialized equipment scanning needs. The business has 43 employees, and estimated revenues for 1997 were HUF 200 million.

The owners of Bar Code recognized that their company's organizational structure was no longer responsive to the needs of current and potential customers. The owners also realized that the informal manner by which they attracted new business in the initial stages of the company's growth were no longer suitable to maintain the company's position in the market. Bar Code hired Argumentum to help the owners define the company's corporate objectives for the next five years, and create a new organizational structure to enable the company to achieve these objectives.

Argumentum achieved the following tangible results for Bar Code:

- Bar Code adopted the new corporate objectives it defined with Argumentum. It will work with Argumentum to develop a new sales strategy to achieve higher sales levels.
- With Argumentum's assistance, Bar Code now has a new marketing plan that it will utilize to direct its sales growth.
- Bar Code implemented the new organizational structure developed by Argumentum. Argumentum will undertake a new assignment with the company to define a new corporate management system to better define the roles and functions of employees within the firm. This will improve operating efficiencies, thereby improving the ability to target new sales opportunities.
- Bar Code improved the utilization of various sales channels, and increased its market share approximately 5%.
- Bar Code now includes customer survey and feedback information into its product and service development. This should result in increased levels of business.
- Bar Code improved the use of its suppliers, and expanded its own role in the provision of equipment and services to customers. This should result in increased levels of business.

Saldo

Saldo is a book publishing and consulting company located in Budapest that was privatized through an employee buy-out. Saldo provides a range of services from textbook and newsletter publishing, to the creation and distribution of various software programs, to direct or telephone consultation in finance and taxation. Saldo has been in business for over 40 years. Saldo has 150 employees and estimated turnover for 1997 was HUF 600 million.

Saldo contracted Argumentum to identify the profit and loss making activities within the company. Once Argumentum identified these, Argumentum was to design a marketing strategy to increase profit making activities, and to define clear corporate objectives for Saldo's future.

Argumentum achieved the following tangible results for Saldo:

- Saldo now understands the need for marketing and it established a marketing division.
- Saldo reported an increase of 10% in market share as a result of improving its sales channels through Argumentum's recommendations.
- Saldo top management now has an improved information and communication system, thereby improving decision making options. This should result in increased business for the company.
- Saldo now utilizes customer oriented survey information in order to improve the services it provides to its customers. This should result in increased sales.

Confidence

Elma

Elma Rt. is the largest domestically owned producer of apple juice concentrate and juice nectars in Hungary. The company is located in Ersekhalma, southern Hungary, and has 200 employees. Estimated turnover for 1997 was HUF 4.0 billion, a significant portion of which came from exports to the USA, Japan, Western and Central Europe, and Russia.

While Elma has a good position in a highly competitive market and is profitable, the Managing Director had difficulty in elaborating a growth and operating strategy for the company. He was also concerned with the high level of overhead costs. Elma hired Confidence to resolve this situation with a two part project: first, to assist the company to develop a strategic plan, and a more detailed action plan to implement recommendations; and, second, to work with Elma's management to improve the financial management and control systems.

Confidence achieved the following tangible results for Elma:

- The Managing Director and his top management team, through the guidance and significant technical input from Confidence, evaluated and agreed to a strategy for

the company through the year 2000. This strategy was elaborated through a disciplined planning process directed by Confidence, and incorporates much of the market research, benchmarking, and other factual analysis completed by Confidence.

- Confidence directed the preparation of detailed action plans by Elma's department managers, outlining tasks and responsibilities for the purpose of implementing the strategy. The company is now implementing these.
- As a result of Confidence's training and guidance, Elma management now understands the importance of corporate planning, and applies a more disciplined, focused and strategic way of thinking towards the company's future. Planning was previously a fragmented process. Now there is greatly improved integration of planning across departments. Furthermore, Confidence implemented a framework for the planning process that is in place and can be utilized in future years.
- Confidence defined the framework for a management information system, and Elma is now implementing it. Confidence defined information flows and requirements among the departments, and each manager is now responsible for ensuring that his/her department can and does fulfill this need. Confidence worked closely with Elma's software developer to ensure that the computerized information system can deliver the necessary information.
- Confidence greatly strengthened Elma's financial management through a series of recommendations that the company is now implementing. The key improvements include better integration and internal controls in the budgeting and cost management system, definition of the role of the newly hired controller, and the establishment of a system of routine cost variance analysis to identify and control deviations, and make these part of manager evaluations.
- Confidence recommended a revised and streamlined organizational structure for better control. There are now clear departmental responsibilities and goals. As noted above, departments are no longer working in isolation of one another, and improved the integration of their activities. This should result in management's ability to more easily identify cost and profit centers, leading to overall improved profitability.

In-Time

In-Time Kft. is a company involved in international shipping, warehousing, customs clearing, and courier services. It was the first Hungarian owned shipping company. In-Time is located in Budapest and has 60 employees. Turnover for 1997 was HUF 1.0 billion.

In-Time experienced dynamic growth since its founding in 1988, and existing management systems were no longer sufficient to allow for proper control of the company. In particular, management needed to improve its understanding of income and costs, establish key departments as cost centers, develop better information for decision making, and improve customer service. In-Time hired Confidence to work with management to establish a modern management information system and to restructure the company's organization for greater efficiency and responsiveness.

Confidence achieved the following tangible results for In-Time:

- Confidence prepared, and In-Time adopted, a more appropriate methodology for allocating revenues and costs to profit and cost centers.
- In-Time implemented improvements to its financial and commercial management controls that Confidence recommended.
- Confidence worked closely with the company's software developer to make appropriate changes to In-Time's computerized information system that correspond with the revisions Confidence made to the financial and commercial management systems.
- In-Time is implementing other changes in management procedures based on the action plan Confidence developed.
- In-Time adopted the revised organizational structure that Confidence designed and recommended. This new structure consolidates departments into a reduced number of logical profit and cost centers, thereby improving the company's ability to measure profitability.
- Confidence worked with the software developer to ensure that the new cost center structure was incorporated into In-Time's computer system.

Mediagnost

Mediagnost Kft, located in Budapest, is a producer of medical diagnostic equipment, primarily x-ray tables. The company's entire product line is exported. Mediagnost has 45 employees, and 1997 turnover was projected at HUF 600 million.

Mediagnost hired Confidence to assist in restructuring the business for improved tax efficiency and greater cost control. Due to cost concerns the company delayed commissioning a review to improve its inventory management system.

Confidence achieved the following tangible results for Mediagnost:

- Confidence determined that an effective restructuring required dividing Mediagnost into two separate companies. One company would be a trading company, and the other would be a manufacturing and development company. This reorganization would result in a clearer identification of revenues and costs due to the separation of these fundamentally different activities.

Subsequent to the delivery of Confidence's reorganization strategy, but prior to its implementation, Mediagnost's management decided to acquire a company that is a major supplier of components for its diagnostic equipment. As a result, Mediagnost's management decided to focus immediate attention on integrating the new acquisition into the company's activities.

Although this development will delay, and perhaps obviate, implementing Confidence's reorganization strategy, Mediagnost's management were so satisfied with Confidence's work that the client requested Confidence to assist Mediagnost in integrating the new acquisition into the company's operational strategy.

Gordius

Beltex Kft

Beltex is a Budapest based company that imports and distributes work safety and hygiene products, and paper products to the catering industry. It has been operating since 1991. It has 40 employees, and estimated revenues for 1997 were HUF 805 million.

Beltex grew rapidly since its initial operations in 1991. It is the exclusive representative for Kimberly Clark in Hungary. As a result of such rapid growth, the company's financial management systems became inadequate. Beltex hired Gordius to conduct a financial review of the company, review the financial management systems, and assess the financial contribution of the company's distribution agents and determine if they were effective.

Gordius achieved the following tangible results for Beltex:

- As a result of Gordius' review of the financial management system, Gordius eliminated errors the client made in invoicing to customers. This reduced customer dissatisfaction by eliminating invoices that overbilled for products. This also increased Beltex's revenues by ensuring that invoices captured all products that the company sold, and reduced potential tax fraud problems.
- Gordius created a better inventory management and control system, resulting in reduced costs from missing inventory and servicing customer requests more rapidly.
- As a result of Beltex's satisfaction with Gordius' work, Beltex requested that Gordius design and improve systems for the company's warehousing and headquarters.

Correct Co.

Correct Co. is a Budapest based firm that has been in business since 1991. Correct is an importer and wholesale distributor of paper. The company has 15 direct employees, with an additional 30 agents. Estimated revenues for 1997 were HUF 940 million.

Correct Co. grew significantly since 1991. The company faces strong competition, but it has contracts to serve as the exclusive representative for a number of foreign companies in Hungary. In order to better integrate the operating efficiencies of each of the four separate business entities servicing different paper customers, the company hired Gordius to review the option of restructuring the company.

Gordius achieved the following tangible results for Correct Co. :

- Gordius determined that Correct Co. should reorganize into a holding company that owns each of the separate operating divisions.

- Correct Co. implemented the Gordius recommendation to reorganize, and legally transformed its registration to become a corporation. This revised corporate structure and legal status will enable Correct to identify potential investors and incorporate 'formal' financing into the corporation.
- As a result of Correct Co.'s satisfaction with Gordius' work, Correct Co. requested Gordius do additional work and assist Correct Co. to prepare a business plan to apply for bank financing.

MACRO

Euro-Boltozat

Euro-Boltozat is a Gyor based company that constructs drinking water supply systems and sewage systems. The company has been in business since 1987. It has 40 employees, and 1997 revenues were estimated at HUF 420 million.

Euro-Boltozat's primary concerns were to stabilize and increase its market position. The company believed that it could do this effectively by developing a quality system as a basis by which its customers could measure it against international standards. The company was also concerned about improving the financial efficiency of its operations. Euro-Boltozat hired MACRO to design and install a quality management system and to review and improve the company's overall business processes.

MACRO achieved the following tangible results for Euro-Boltozat:

- Euro-Boltozat is utilizing a new system to review potential contracts that MACRO developed and installed. This improves the client's ability to measure potential contract profitability.
- Euro-Boltozat is benefiting from a new document and data control system that MACRO developed and installed. This enables employees to reduce the time they require to complete internal business processes, thereby improving cost-effectiveness.
- Euro-Boltozat is now utilizing a new sub-contractor evaluation system. This enables the company to determine whether potential sub-contractors are able to provide the necessary range of services, and at what price.
- MACRO designed and installed a new error prevention system. This system will mean reduced time and costs to Euro-Boltozat, as employees will complete processes correctly the first time, rather than the company incurring costs to re-do jobs and utilize additional raw materials.

Hidrotechnika

Hidrotechnika is a company located in Gyor. The company installs drainage systems and pipelines. It has been in business since 1991. It has 45 employees, and 1997 revenues were estimated at HUF 550 million.

Hidrotechnika wanted to expand its sales by expanding its market share. The company lacked a documented operations procedures, and all processes throughout the company were completed on a strictly verbal basis. The company hired MACRO to institute a system of business process development and re-engineering in order to improve internal operations before accomplishing its objective to expand market share.

MACRO accomplished the following tangible results for Hidrotechnika:

- Hidrotechnika implemented the just-in-time system for raw material purchasing and storage that MACRO designed. This will lead to better inventory management and reduced costs. Hidrotechnika can pass these cost savings on to customers. This can lead to an increase in market share.
- Hidrotechnika is utilizing a new MACRO designed process identification and tracing system that enables the company to price potential jobs more accurately. This may lead to increased market share, as the company will be able to project more precisely its costs to complete certain business operations.
- MACRO installed a new system to more effectively measure offerings from potential sub-contractors. This improved information will also enhance the offering Hidrotechnika can include in its job bids.
- MACRO conducted a quality/customer awareness training session for Hidrotechnika's employees so they better understand the importance of their role in providing a quality product to the customer.

L-CONT

L-CONT is a company located in Győr. It began business operations in 1989. The company sells and installs fire detection and security systems. It has 40 employees. Revenues for 1997 were estimated at HUF 170 million.

L-CONT recognized that in order to remain competitive, it needed to incorporate a better customer focus in its business operations. The company lacked any written systems that defined what tasks employees were supposed to do and how they were supposed to do them. L-CONT hired MACRO to develop an organizational quality system, establish business processes that were customer oriented, and reorganize some of the internal business processes.

MACRO achieved the following tangible results for L-CONT:

- L-CONT now utilizes a newly developed and installed quality system that management audits on a regular basis. This system that MACRO designed enables the company to be sure that it consistently produces products at the same high standard.
- L-CONT has a preventive management system that MACRO designed, whereby L-CONT can remedy potential problems before the production/installation process is completed. This reduces costs and improves customer satisfaction.

- L-CONT utilizes a MACRO developed project monitoring system. This system enables management to review a job-in-process on an ongoing basis, rather than reviewing a contract after it is completed. This reduces errors and waste, thereby reducing costs. It also improves customer satisfaction.

OPEL Barcika

OPEL Barcika is an automotive sales and service company. It is located in Kazincbarcika, and employs 36 people. The company's estimated revenues for 1997 were HUF 490 million.

OPEL Barcika faces strong competition from other automotive sales and service companies in Hungary. The company decided that it needed to strengthen its market position. It decided that one strategy to accomplish this was to differentiate itself from its competition by achieving international quality standards and improving its customer focus. OPEL Barcika decided to hire MACRO to design a quality control system, become a certified ISO company, and improve their employees' skills in dealing with customers.

MACRO achieved the following tangible results for OPEL Barcika:

- OPEL Barcika installed and utilizes a MACRO designed error prevention and correction system. This reduces the likelihood that customers will receive a defective service or product, thereby improving customer satisfaction.
- OPEL Barcika now utilizes a MACRO designed after-sales and servicing customer feed-back system to measure customer satisfaction. The company can use these results to improve the type and level of service it provides to its customers, thereby hoping to expand its market share.
- OPEL Barcika regularly conducts an internal quality audit to be certain that the company provides quality products and services to customers on an on-going basis. This also improves customer satisfaction, and can result in increased sales.
- OPEL-Barcika has a documented quality system to ensure that employees utilize a standardized process to provide a consistent level of quality service to customers.

Vasep-Dekopan

Vasep-Dekopan is a company located in Szombathely. The company began operations in 1990. It has 60 employees, and revenues for 1997 were estimated at HUF 130 million. The company sells and installs flooring, wallpaper, and other wall coverings.

Vasep-Dekopan's main objectives were to stabilize and expand its market position. The company believed that it would gain a competitive advantage by achieving ISO certification, thereby selling itself as a company that adheres to internationally recognized standards. The company hired MACRO to design and install a quality management system and to train the management and employees on key quality principles.

MACRO achieved the following tangible results for Vasep-Dekopan:

- Vasep-Dekopan now has a newly installed MACRO designed quality control system. This reduces errors and waste, thereby reducing the company's costs.
- A newly designed and improved storage system for raw materials enables the company to better manage what is available and prevents over-purchasing. The new storage system also enhances the shelf life of the products. Both of these will reduce costs.
- As a result of MACRO's work, the company now has a system that inspects and tests all incoming materials, reviews work-in-process, and has an improved final inspection process. This reduces the level of work that employees must re-do, thereby reducing costs.
- Managers and employees better understand the implications of quality management on the company as a result of the training sessions that MACRO conducted. This will improve the success of the quality management program that Vasep-Dekopan has instituted.

Vasep-Kalor

Vasep-Kalor is a company located in Szombathely. The company manufactures gas fittings and heating equipment, and installs central heating systems. It employs 40 people.

Vasep-Kalor faces strong competition in its market. In order to stabilize its market position and poise itself for expansion, the company recognized that it had to reduce costs and improve operating efficiencies. The company has a wide range of customers and sub-contractors. It lacked proper systems to monitor internal business processes or external suppliers. The company hired MACRO to institute a standardized system for the company to improve its internal operations, enabling it to expand its share of the market.

MACRO achieved the following tangible results for Vasep-Kalor:

- Vasep-Kalor now utilizes an error correction/prevention system. This MACRO designed system enables the company to identify and correct errors early in the manufacturing or installation process. This results in a reduced rejection rate of manufactured products, thereby improving efficiency and costs.
- MACRO installed a new internal quality audit system that management uses to review the quality of business operations on an ongoing basis, thereby continuing to be certain that products and services remain at a consistently high level. This improves customer satisfaction and can lead to new customers.
- Vasep-Kalor now has a sub-contractor evaluation system that it uses to measure whether potential sub-contractors are able to provide the required level of quality on products and services. This system identifies potential problems with sub-contractor products before Vasep-Kalor incorporates these items into its own production processes, thereby reducing costs.

Vasep-Szer

Vasep-Szer is based in Szombathely. It began operations in 1990. Estimated revenues for 1997 were HUF 130 million. The company is a master builder and general contractor. It employs 100 people.

Vasep-Szer recognized that in order to remain ahead of its competition, it would need a means by which to differentiate itself. Vasep-Szer hired MACRO to improve the company's business processes, improve its overall operating efficiency, and prepare the company to be pre-assessed for ISO certification.

MACRO achieved the following tangible results for Vasep-Szer:

- MACRO installed a quality control system installed. Vasep-Szer successfully implemented the system, and this enabled it to get pre-assessed and approved by a third party ISO certification group. This feature will distinguish Vasep-Szer from many other construction companies, and should serve as a marketing point to attract new business.
- Vasep-Szer's new MACRO designed sub-contractor evaluation system enables it to pre-determine the quality of products and services its potential sub-contractors can provide. This improves the company's ability to identify any potential problems with products and services before Vasep-Szer prepares a bid. This can reduce costs and improve profitability.
- The company utilizes an improved records handling and storage system designed by MACRO. This, in conjunction with an error correction and prevention system, means that the company improved its overall business processes and functions. This will result in reduced process time to complete work, thereby reducing costs.
- MACRO conducted training for management and employees in quality principles, which assisted Vasep-Szer to successfully adopt and implement the new systems.

Vill-Korr

Vill-Korr began operations in 1990. The company is located in Győr, and employs 45 people. The company assembles and installs heavy electrical systems. Revenues for 1997 were estimated at HUF 600 million.

Vill-Korr's primary customers were local governments and utility companies, with only a few private industrial firms among its customer base. The company recognized that to expand it would need to improve and standardize business processes. Vill-Korr hired MACRO to review and improve business processes and design and implement a quality management system focusing on customer satisfaction.

MACRO achieved the following tangible results for Vill-Korr:

- Vill-Korr's quality system now includes a MACRO designed project service

planning, validation, and verification system. This enables management and employees to measure and verify results throughout a project, rather than waiting until a project is completed. This reduces costs and improves customer satisfaction.

- Vill-Korr's new MACRO designed error correction and prevention system also contributes to improved project management and implementation. It identifies potential problems, and corrects these early within a particular process cycle, rather than waiting for the completion of the cycle. This improves overall operating efficiency and reduces costs.
- MACRO installed a work identification and tracking system that Vill-Kor now utilizes to review work in process. When the company identifies problems, the system enables management to identify who in the process is responsible, and then corrects this segment of the system. This reduces time and costs to correct potential errors.
- The training that MACRO provided to the staff on quality principles led to an increased level of employee buy-in to accept the new business systems that the company adopted.

Qualit-Invest

Blondel

Blondel Kft. is located in Kisvárda, northeast Hungary, and is a producer of picture frames and furniture. Among its customers is IKEA, the large Swedish furniture manufacturer/retailer. The number of employees increased recently from 150 to 190 after the company opened a new picture frame manufacturing workshop. Annual revenues for 1997 were HUF 400 million.

Since Blondel was privatized, management faced particular challenges to establish a corporate strategy and to revise work processes. The company hired Qualit-Invest to develop a strategy, restructure business processes, and to establish a total quality management system. The project included a total company review in order to obtain ISO certification.

Qualit-Invest achieved the following tangible results for Blondel:

- Blondel management, with significant guidance and technical input from Qualit-Invest, has developed and adopted a medium term strategy for the company, along with the necessary action plans and an investment plan to support implementation of the strategy. This strategy represents a significantly changed attitude on the part of management. It now focuses on a longer term vision for the company, rather than focusing on day-to-day issues.
- Qualit-Invest completed a marketing survey for Blondel, and this data served as the basis for the company's strategy. This was the first time Blondel utilized market survey information to any extent to make key decisions. It led to Blondel developing new products. For example, the survey revealed a growing market in Hungary for more modern styled picture frames. Blondel is responding to this information and meeting

this market demand. This should result in new sales.

- Blondel reorganized and refocused the marketing function within the company. Previously the marketing/sales manager also had responsibility for production. Through recommendations made by Qualit-Invest, he now concentrates solely on marketing activities. As a result, Blondel improved its product quality, obtained several new clients, and successfully won back several former customers. This should all result in additional sales and increased profitability.
- Qualit-Invest mapped, refined, improved for efficiency, and documented the working procedures for all departments. It defined all of the quality control points for production. Employees are actively using the new procedures and have a better understanding of their jobs. Blondel significantly reduced its level of rejects in production, representing a real cost savings for the company.
- Blondel improved internal financial management. Qualit-Invest made improvements by defining new reports analyzing product costs and cash flow. These give management a much better understanding of the company's financial situation. Management can now take necessary actions to improve financial performance. The company still needs to upgrade its software and hardware systems and install a network for greater efficiency.
- Qualit-Invest, working with company management, established 90% of the quality management system. It expects to complete this within three months. It completed and installed documentation necessary for ISO certification for most departments.
- There is a visible improvement in employee morale. Qualit-Invest, with the support of management, discussed this project with employees so that they understand its implications. Employees now understand that management is taking actions to ensure the company's survival. The company opened a new production line and established a new quality management system. These actions taken together gave employees greater confidence and a willingness to work with management to achieve Blondel's goals.

Matra Malom

Mátra Malom is a grain processing company located in Gyöngyös, northeast Hungary. The company produces flour made from wheat. It currently has 200 employees after a significant staff reduction last year. Mátra Malom's annual revenues for 1997 were estimated at HUF 1.0 billion.

Matra Malom's management recognized the need to restructure its operations, but was unsure how to accomplish this. The company hired Qualit-Invest to develop a strategy and improve operations, and to develop a quality management system to obtain ISO certification.

Qualit-Invest achieved the following tangible results for Matra Malom:

- Management's view about managing and leading the company improved dramatically. Qualit-Invest exposed management to new methodologies and

recommendations for solutions. These new options demonstrated to management how to manage the company differently, and management responded enthusiastically. Qualit-Invest reports that, as a result of this, the project is moving along faster than expected.

- Matra Malom management, with guidance and input from Qualit-Invest, established goals for the company, along with an overall strategy to achieve these. Furthermore, each department manager, under the direction of Qualit-Invest, has prepared a more detailed action plan for his/her areas of responsibility. Significantly, the strategy elaborates Matra Malom's quality policy, and defines its objective to establish an "agency" system throughout Hungary as a means to develop new customers and increase sales.
- Qualit-Invest thoroughly analyzed, refined for greater efficiency, and implemented work flows and procedures for production. While the changes in technological procedures were not due significantly to technological constraints, it is important that these procedures are now finally documented. Qualit-Invest is continuing with a similar review of procedures in all other departments, and expects to complete these by April, 1998.
- Qualit-Invest scrutinized management reports and recommended changes for greater effectiveness, and Matra Malom's management now utilizes these new reports.
- While Qualit-Invest did not yet fully complete this project, it is on schedule with all activities necessary to establish the quality management system. It should conclude the quality audit for ISO certification in July or August, 1998. These activities include: establishing a strategy and action plan, defining and implementing a quality policy, refining and documenting work procedures, establishing quality controls, and preparing personnel files, among others.
- Qualit-Invest is conducting a supplementary market survey that it expects to complete by late February, 1998. The survey includes extensive interviews with customers, and will provide a basis to define how Matra Malom will utilize the network of marketing agents it is establishing. The survey information will also be useful to the agents as they approach potential new customers.

Elattro

Elattro Kft. is a furniture trading company that has several retail shops around the country. The main office is located in Budapest, but it does focus its trading activity on provincial cities. The company is developing very quickly. It employs 50 people, and is continuously expanding its business in the countryside. Revenues for 1997 were approximately HUF 35 million.

The rapid growth forced management to acknowledge that the company's organization, management information system, and financial controls were inadequate. It hired Qualit-Invest to reorganize and establish a new management information system and controlling system, re-engineer business processes through TQM techniques, and reorganize the company's operations in order to meet ISO specifications.

Qualit-Invest achieved the following tangible results for Elattro:

- The company, with guidance and assistance from Qualit-Invest, established goals, as well as an overall strategy to achieve these. Furthermore, each department manager, under the direction of Qualit-Invest, has prepared a more detailed action plan for his/her areas of responsibility.
- Qualit-Invest reviewed Elattro's organizational requirements, and recommended a new structure. Elattro implemented the revised structure, which it urgently needed as a result of the rapid growth it experienced in the past two years. The company grew from five to fifty employees, and from one retail shop to twelve. Qualit-Invest also prepared position descriptions and established a personnel system.
- Qualit-Invest analyzed work flows in the retail shops. Elattro implemented standardized procedures that now make performance measurable and controllable. Previously the shops devised their own methods of working. Qualit-Invest is continuing its review of work flows in other departments (e.g., accounting, purchasing, etc.), and expects to complete this by the end of March, 1998. Qualit-Invest will document all of the work procedures to establish the quality management system.
- Elattro recently implemented a new management information system providing an on-line connection with its retail shops. As part of this project, Qualit-Invest is reviewing the management reports produced by this system to determine their adequacy. Elattro will be able to implement any changes by the end of February, 1998.
- Qualit-Invest identified an individual to work as the Co-Managing Director with responsibility primarily for financial matters. Elattro hired this person, and his presence will enable the Managing Director to focus on marketing and further growth of the business.

Additional Tangible Results

It is clear that end user firms achieved significant tangible results because of the consulting assistance HCDP consulting partners provided to them. These end users will likely see additional results after the Task Order period is completed. RONCO provided USAID/Budapest with completed mission designed Baseline Data Questionnaires from all of the HCDP consulting partners and end users. RONCO also worked with USAID/Budapest and consulting partners to implement a mechanism whereby the mission will be in a position to continue monitoring results within the end user companies for whatever time period the mission chooses to continue its monitoring activities in Hungary.

VI. Standardized Methodologies

The Task Order stated that, although the primary means of skills transfer should take place through 'hands-on' assistance, the contractor should also provide formal training utilizing standardized models and approaches to enterprise restructuring and re-engineering.² These methodologies, or toolkit, would also serve as information for consulting partners to access to answer technical business problems that they might encounter within a consulting assignment.

In October, 1996, the former AID/Contract Officer's Technical Representative (COTR) in Washington approved the Toolbox that RONCO submitted in response to this Task Order. He confirmed his satisfaction with this Toolbox again in January, 1997.

The RONCO/AA team met with the COTR just prior to departure to Hungary in February, 1997. At this meeting he requested the team to contact and visit several other AID projects in the Central and Eastern European region that had undertaken consulting and training activities with enterprise managers. The purpose of these visits were twofold: a) learn from the prior experience of these projects about potential implementation problems that could arise (although these other projects were direct service providers to end users), and, b) identify and obtain copies of restructuring and re-engineering methodologies that HCDP could incorporate into its Toolbox.

In response to the COTR's request, team members visited AID projects in Slovakia and Macedonia. The RONCO Chief of Party (COP) also met in Hungary with the COP of an AID project in Moldova. The team obtained copies of several training pieces that these projects used, and translated them into Hungarian.

Based on a series of discussions and a memo from the COTR dated April 21, 1997, (Appendix Two), the COTR requested that RONCO prepare and submit a new version of the Toolbox. He also requested that it be transferred to a user friendly CD-ROM format. RONCO complied with both of these requests, though they were beyond the scope of work and budget outlined in the Task Order.

The new, revised product, the HCDP Revitalization/Restructuring Toolbox, is a comprehensive restructuring and re-engineering training tool that incorporates enterprise restructuring and revitalization methodologies from other AID projects (Slovenia, Russia, Slovakia, Macedonia, among others) and some international companies (Arthur Andersen and Westinghouse, among others). It constitutes approximately 4,000 pages of text in English and Hungarian, and formed the basis of the weekly training sessions that HCDP provided to consulting partners, as well as the training that HCDP provided to 174 enterprise managers.

RONCO provided final text copies of the new HCDP Toolbox to AID/Washington and the mission on August 1, 1997. RONCO provided CD-ROM versions of the Toolbox to AID/Washington and the mission on November 17, 1997. Both the text and CD-ROM formats of the HCDP Toolbox are in English and Hungarian.

² Task Order - Enterprise Restructure and Revitalization, page 2.

Appendix Three contains a copy of the HCDP Toolbox Table of Contents.

RONCO provided copies of the HCDP Toolbox on CD-ROM to:

- Consulting partners
- Business Basics Foundation
- Hungarian Foundation for Enterprise Promotion
- Center for Private Enterprise Development
- Hungarian Center for Technology Promotion
- Budapest Economics University
- Hungarian Local Workplace/Local Production Foundation

The Center for Private Enterprise Development subsequently made an additional twenty copies of the CD-ROM and distributed these to some of its clients.

VI. Counterpart Organization

In order to provide sustainability in the area of training to restructuring service providers (consulting companies) beyond the Task Order period, the Task Order required the contractor to identify and develop the capacity of a Hungarian counterpart to provide these services.³ The contractor was to accomplish this by providing capacity building assistance to the counterpart, make available the toolkit, and provide the counterpart with ‘train-the-trainer’ training in conjunction with the toolkit.

Counterpart Selection

At the suggestion of the former COTR, RONCO approached the International Management Center in Budapest (IMC) to determine its interest to participate as the project’s training counterpart. After initially welcoming the opportunity to participate, and receiving approval from the COTR (Appendix Two), IMC determined in June, 1997, that it preferred to focus on training activities that it believed offered more significant financial remuneration.

HCDP had begun to identify other potential training counterparts prior to IMC’s withdrawal in June. This, too, was in response to the COTR’s request (Appendix Two) that strongly encouraged HCDP to develop other counterparts in addition to IMC.

After making contact with a number of other potential training counterparts, including the Center for Private Enterprise Promotion, the Management Development Center in Debrecen, the Management Development Center at the Budapest Economics University, and the Business Basics Foundation, HCDP selected the Business Basics Foundation (BB) to serve as the primary training counterpart.

The team made this selection on the basis of a number of factors. Among these were:

- BB’s primary function is to provide training and consulting services to SMEs in Hungary.
- BB was successfully operating in Hungary since 1990.
- Although it receives some of its funding from the Soros Foundation, it is required to generate its own revenues on a ‘matching grant’ type of basis by providing services to fee paying customers.
- As a result of having to generate revenues, BB’s approach to training is a market oriented one.
- BB was interested to learn about topics in the HCDP Toolbox that were unfamiliar in order to incorporate these into training programs it offers to its clientele.

The response from the other organizations that HCDP approached was moderate, at best. Potential reasons for this will be offered in Chapter IX of this report, “Lessons Learned.”

³ Task Order – Enterprise Restructure and Revitalization – Building Hungarian Capacity, page 2.

Capacity Building

HCDP assumed a market based approach in providing training to BB staff. Since BB had been providing training services in the marketplace for over six years, the organization was in an excellent position to know what services its clientele (SMEs) would pay for. BB training staff already had significant experience and skill development in the areas of marketing, finance, and organizational development.

After reviewing early versions of the revised HCDP Toolbox on diskette, BB decided it was most profitable to focus HCDP train-the-trainer activities on areas of the Toolbox related to managing organizational change, business process re-engineering, and quality management. BB was interested to incorporate these Toolbox topics into a series of “Growth Management” training programs it was designing for its customers.

Training staff members of the BB began participating in HCDP weekly training sessions for consulting partners in July, 1997. As mentioned earlier, weekly training sessions focused on HCDP Toolbox topics.

HCDP also worked with BB to prepare and participate in HCDP sponsored training workshops for enterprise managers (referred to later in Chapter VII of this report). As part of the final capacity building exercise, HCDP had an intensive one day interactive working/training session with key BB staff to review additional change management, business process re-engineering, and quality management methodologies.

Results

BB reports that it fully developed a training program for enterprise managers in “Enterprise Growth Management.” It incorporated a number of topics from the HCDP Toolbox into its program, and is using the information in the Toolbox as part of the training it offers to clients.

BB also continues to offer consulting services to SMEs, and even provides consulting services to other consulting companies. BB believes that the consulting services segment of its business will continue to expand. The organization is in the process of exploring ways to expand its share of the training and consulting market. Providing training services to consulting companies, in addition to the other services it already provides to SMEs, is one approach it may pursue. As BB provides additional training and consulting services to the SME community (including consulting companies), it will continue to distribute modules from the HCDP Toolbox.

VII. Outreach Training

The final element of the Task Order required the contractor to provide broader outreach training to a minimum of 150 enterprise managers in the areas of restructuring and revitalization.⁴ RONCO accomplished the final phase of this training element in October, 1997, and exceeded the benchmark by training 174 enterprise managers. RONCO submitted with the quarterly reports copies of the training materials used during these sessions.

The former COTR's April 21, 1997 memo indicated that the 150 managers to receive training should come from firms outside of those client companies receiving direct assistance. In response, the RONCO team targeted the outreach training to enterprise managers from companies that were not receiving consulting assistance under the scope of the HCDP project.

Results

On July 1, 1997, HCDP conducted the first outreach training session for enterprise managers. The team conducted the session at the Hungarian Center for Technology Promotion. Twenty-eight participants from a variety of private sector companies attended. The Toolbox based training focused on "Strategic Planning to Revitalize Company Performance." HCDP consulting partners also attended the session. They used this session as an opportunity to market their services to some of the attendees. HCDP Hungarian staff gave initial presentations on the HCDP Toolbox, how enterprise managers could utilize it, and a brief outline of the range of topics the Toolbox included.

On October 13, 1997, HCDP conducted a training session at the Budapest Economics University. The Toolbox based training topic was "Financial Management." Seventy-six attendees participated in this session. HCDP presented this training as part of a semester long training activity sponsored by the Economics University. HCDP Hungarian staff gave a more in-depth presentation about what the HCDP Toolbox offered to enterprise managers, the topics it contained, and the fact that the Toolbox would be available on a CD-ROM.

On October 20, 1997, HCDP conducted a training session at the Hungarian Local Workplace/Local Production Foundation. This session focused on "Business Process Re-engineering." The BB participated as a presenter in this training session. Twelve people attended the program. BB also used this event as an opportunity to market its services to participants.

On October 21, 1997, HCDP conducted a training session at the Hungarian Center for Technology Promotion. This Toolbox based session presented the topic "Innovative Marketing." Twenty-three people attended this session. HCDP Hungarian staff participated as trainers in this session. The BB also served as trainers by presenting a case study to attendees. HCDP staff also gave a presentation on the HCDP Toolbox.

⁴ Task Order – Enterprise Restructure and Revitalization – Building Hungarian Capacity, page 4.

On October 22, 1997, HCDP conducted a final training session at the Hungarian Foundation for Enterprise Promotion. Thirty-five participants attended a session where HCDP expatriate and Hungarian staff presented the “Total Quality Management” module from the Toolbox. HCDP staff also gave a presentation about the HCDP Toolbox.

Overall, participants responded positively to the HCDP training. A number of participants indicated that they believed they would benefit from additional training sessions.

VIII. CONCLUSIONS AND RECOMMENDATIONS

The previous chapters of this Final Report document RONCO's success in achieving, and in most instances surpassing, the Task Order deliverables and objectives. With any project activity, including this one, there is a range of conclusions and recommendations that AID will find useful to consider as it designs and contracts for other projects similar in nature to this one. RONCO offers the following conclusions and recommendations as a means by which AID can improve the tangible benefits from U.S. foreign assistance activities to the targeted audience.

Program

Consulting Company Capacity Building

- The Task Order's design accomplished AID's goal to strengthen the capability of Hungarian consulting companies to provide restructuring and revitalization services to Hungarian medium sized businesses.
- The sustainability of results that RONCO achieved is enhanced because of the program design, which required the contractor to work through consulting partners, rather than providing consulting services directly to end user firms.
- The most effective aspect of the capacity building exercise was the skills transfer accomplished by HCDP expatriate and Hungarian team members working directly and closely with the consulting partners, as the partners provided consulting services directly to end user companies.
- An essential element of the successful capacity building was the work that HCDP performed through **every** stage of the consulting process **with** the consulting partners, including a SWOT analysis of the partner firms, identifying potential new customers, marketing services to potential clients, and preparing proposals. These factors were as important to strengthening the consulting companies as the experience the partners gained by actually providing consulting services.
- Future project design should incorporate an element of time to identify eligible/interested end user firms, market services to them, and prepare proposals. This is a regular part of any consulting business cycle. This Task Order did not recognize this.
- End user companies did, and should, pay significant fees for the services that consulting partners provided. Rather than 'subsidizing' costs, HCDP financial assistance to consulting partners assumed the market entry costs that enabled the consulting partners to enter the SME market and offer restructuring services to a range of companies that consulting partners previously viewed as unprofitable to pursue. All of the consulting partners now view the SME market as an extremely profitable one to pursue, and this, too, was a major objective of the Task Order. The strategy to provide financial assistance to the consulting partners was sound, and future project designs should incorporate this element.
- The standardized methodologies that the HCDP Toolbox contains were a useful way to supplement the direct, hands-on capacity building assistance that the team transferred through direct, ongoing contact with consulting partners. No toolbox can replace the skills transfer that occurs from the sharing of human experience, nor can a toolbox

serve as the primary basis upon which to build capacity within people.

Standardized Methodologies

- The new HCDP Toolbox that RONCO designed is a comprehensive collection of restructuring methodologies. It incorporates some tools from other toolboxes and activities that other AID projects found useful throughout Central and Eastern Europe and the Newly Independent States.
- Development of this new Toolbox was entirely outside the scope of the Task Order. Preparing it required that valuable time and financial resources were diverted from the more valuable, and contracted, activity of direct interface with consulting partners and end user firms.
- Now that RONCO has prepared this comprehensive product, AID should not spend additional financial resources to develop new toolboxes. The HCDP Toolbox is a useful product that could be made available for broad distribution and used by others.
- AID should not require other projects to rely exclusively on the HCDP Toolbox to implement training and/or capacity building activities. The Toolbox, along with any other written texts, is only one of many tools that implementers may choose to utilize to build capacity and transfer knowledge. Any professional who works in skills transfer and capacity building will draw upon his or her own experience to reinforce technical and judgment skills with the target audience. By necessity, therefore, professionals on other projects may choose to use some or all of an available toolbox, but may also need to develop some basic training materials that reflect their experience, and enable them to communicate their message effectively. AID should encourage this.
- While standardized methodologies are useful to reinforce concepts and provide assistance to resolve certain technical questions, there is no one product that can serve as the complete problem solving 'bible.' It is erroneous to believe that such a product exists or can be created. There is no substitute for the guidance, review, and judgment that experienced professionals bring to the problem solving process.

Counterpart Organization

- Identifying an appropriate counterpart organization to continue in the training of restructuring providers is a sound idea. However, in the Hungarian situation, a number of potential candidates (organizations) within the training market (aside from BB) do not yet appear ready to make the necessary investment in staff time (and, therefore, financial resources) that is required to learn about and use new training resources. Their view is not sufficiently long-term to invest now in expectation of future financial gains. Nor do they necessarily see the consulting company market as one that is profitable to penetrate.
- Whereas the Task Order provided some direct financial assistance to consulting partners, the Task Order did not provide any direct financial assistance to a training counterpart organization. AID may have either overestimated the revenues that it believed an organization could generate by offering training to a relatively narrow group (consultants), and/or it underestimated the market entry costs that an organization would incur. It appears that a combination of these factors resulted in a relatively low level of enthusiasm in this activity.
- Countries other than Hungary may have a less well-developed group of training

organizations and companies that are capable of providing a wide range of high caliber training courses to private sector companies (end users or consulting companies). It is likely that these organizations will also lack the financial resources to target particular audiences, and may offer only a narrow range of training options. AID may want to consider some type of financial assistance similar to the one that this Task Order included for consulting partners.

Outreach Training

- Outreach training elements that are included in project design should serve to accomplish very targeted objectives. The RONCO team strongly endorsed the training of enterprise managers within end user companies receiving consulting assistance under HCDP. This targeted training would serve the purpose of reinforcing the work that consulting partners were conducting within the end user companies. It would also likely have a positive impact on how enthusiastically the end users implemented consultants' recommendations, and, ultimately, on tangible results. Training of this type can also go a long way to demonstrate to management the usefulness to provide training for management and employees. This strengthens the demand for additional training, potentially increasing demand for services among local training organizations.
- Hungary had a large inflow of donor funded training activities over the last several years. Many of these activities promoted a wide range of general concepts to a variety of SME audiences. There is now little demand for broadly based management training among private sector SMEs in Hungary. Other markets in the Central and Eastern European region may demand this type of training. Management training activities should be integrated with other program objectives.

Contract Management

- U.S. foreign assistance activities can be implemented in a more timely manner by contractors if contract management responsibilities are based in the field with the mission. Time lost in communication between the mission and Washington causes significant implementation delays. There is often a difference between mission priorities and those of Washington, compounding potential implementation problems. USAID mission personnel are in a better position to respond to issues that arise during implementation, as they, like the contractor, are in the market where the project activity is taking place. Washington based project management often places the contractor in the position of being contractually responsive to the COTR, while at the same time responding to a differing range of priorities within the mission.
- All members of the project team should be deployed to the field at the beginning of project start-up, unless the project design incorporates a planned phase-in of personnel. Anything short of this may lead to unnecessary delays in project implementation schedules, or in spending less time on equally valuable program activities.
- AID should avoid artificial lines between project start-up and project implementation activities. In the case of HCDP, the former COTR required that the contractor not proceed with project implementation until his arrival in country to review the work plan and progress on other start-up activities, at which time he would determine whether or not to proceed with implementation. This caused a delay of approximately five weeks in project implementation. Had project management been mission based, the work planning and initial project implementation activities could have

occurred simultaneously. The contractor could have received work plan approval almost immediately, rather than waiting for the COTR to find time available for trips to the field.

- A contractor's performance is governed and measured against achievement of benchmarks and deliverables that are defined in the contract with AID. Any requests by a COTR for additional or revised activities outside the scope of an existing contract must be negotiated with the contractor, and official program and budget modifications agreed to and signed by an authorized AID Contracts Officer. Draft memos or correspondence from the COTR to the contractor, or to the contractor's Chief of Party, requesting additional services do not constitute official revisions to a contract, and should not be viewed as such, either by the contractor or AID. AID contracts are designed so that neither party is subject to arbitrary changes to scopes of work or budgets without adhering to official AID contract modification procedures. Not adhering to these official procedures can create serious perceived contractual compliance issues between AID and the contractor, generally resulting in misperceptions and misunderstandings as to what the contractor is obligated to do within the scope of work, and the budget to perform the work.
- Modifications to scopes of work should be well thought out and planned. They should include appropriate changes to budgets to reflect increases or decreases in level of effort. Program implementation changes that do not reflect this process often result in activities that fall short of achieving well intended objectives.
- AID and contractors work as partners to implement U.S. foreign assistance programs. As such, program implementation is far more likely to achieve the desired results when AID and contractors view themselves to be working on the same side to achieve mutually desired objectives. Collegial management styles go far to promote the likelihood of success. This project benefited from this type of process with the change in project management in Washington and the mission.

Addendum to Final Report
Task Order #3
HCDP Toolbox Distribution Extension
February 1998

Objective

The principle idea of the contract extension was to disseminate the HCDP Toolbox. The Toolbox is a CD-ROM version of 4,000 pages of restructuring and revitalization materials created during the previous 10-month project period. The distribution of this Toolbox was to include a broad range of different types of organizations. The organizations designated to receive this Toolbox included industry groups, professional associations and other training, business or educational institutions.

The distribution phase of Task Order #3 encompassed the physical dissemination of the CD-ROM, as well as instruction in the effective usage and navigation of the HCDP Toolbox.

Strategy and Methodology

It was determined that the most sound and efficient strategy to distribute the HCDP Toolbox CD-ROM broadly was to implement a direct mail program consisting of five phases: (a) List Development, (b) Telephone Screening, (c) Mass Mailing, (d) Telephone Confirmation, and (e) Training Sessions.

The list development phase initially included 517 potential recipients. These recipients were divided into one of four "categories": (a) consulting and accounting organizations, (b) business foundations or professional associations, (c) educational institutions and training organizations, and (d) manufacturing and service organizations. Screening the companies on the list to verify the proper mailing address (and to check if a business still existed) resulted in a reduction of the 517 potential recipients to 471 well-targeted organizations, businesses, and institutions.

Once the list was finalized, the HCDP Toolbox CD-ROM and a one-page direct mail piece were mailed to the 471 targeted organizations. The direct mail piece itself provided an overview of the HCDP project and the rationale for sending the CD-ROM to the organization; it also explained the concept of the Toolbox and ended with an invitation to a free training session. This direct mail package also included a separate instruction page detailing the technical requirements required to enhance the usage of the HCDP Toolbox CD-ROM.

Each package was mailed as a registered letter, therefore accomplishing two functions: (1) a registered package created a high degree of interest among the recipients as they

assumed it to be of special value, and (2) sending the package via registered mail ensured that each CD-ROM was delivered to the specified person. The mailing took place over a 4-day period. The extremely low number of returned or non-delivered packages confirmed the success of (and the need for) the initial telephone screening. The number of returned packages was only 7 out of 471 or 1.5%. Therefore, the total number of HCDP Toolboxes mailed and delivered was 464.

A few days after the mass mailing, a telephone confirmation campaign was conducted to personally invite and encourage each of the 464 recipients to come to one of the training sessions. Total attendance at the training sessions was 65 people. The ease of installation and usage of the CD-ROM was a primary reason for many companies not feeling the need to attend the workshop. See Lessons Learned for details.

There was one training session for each of the recipient categories as described earlier. To the extent possible, the training sessions were tailored to a specific category, and the information presented at these sessions clarified how to use the HCDP Toolbox CD-ROM—how to view the material, how to modify it, and how the Toolbox can be beneficial. The CD ROM programmer (the creator of the Toolbox CD-ROM) attended every session to answer technical questions regarding installation or usage and to clarify individual questions related to modification of the Toolbox.

Database

A database and its corresponding hard copy, both of which contain all 471 targeted recipients, are attached to this report. The list of companies on the database has been divided into various categories as described earlier. The database also indicates whether or not the company was reached for screening, when the CD-ROM direct mail package was mailed, and whether or not the company attended a training session.

Results

As noted above, a total of 464 HCDP Toolbox CD-ROMs were delivered. This is a 98.5% delivery rate. Each of the 464 targeted recipients was invited to attend a training session. The number and percentage of HCDP Toolbox recipients and training session participants by category are:

	<u>Total</u>	<u>Consulting/ Accounting Organizations</u>		<u>Education/ Training Institutions</u>		<u>Foundations/ Associations</u>		<u>Manufacturing/ Service Firms</u>	
		<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
Received CD-ROM	464	264	57	26	5	129	28	45	10
Attended Session	65	35	54	12	18	14	22	4	6

Of the 464 delivered packages, over 125 companies indicated during the Telephone Confirmation campaign that one representative would attend the training session. In total, 65 people attended. The attendee rate is discussed in Lessons Learned. Of those who did attend a training session, evaluations were conducted and the results are as indicated below:

- 91% rated the value of the training session to be high or very high.
- 87% rated the usefulness of the HCDP Toolbox CD-ROM to be high or very high.
- Of those who have already started using the Toolbox CD-ROM, 65% rated the CD-ROM's ease of use to be high or very high.

The entire distribution program was received with much appreciation. The HCDP staff recorded a variety of commentaries during the Telephone Confirmation phase and through post-training session evaluations. Those comments are attached.

Lessons Learned

The Hungarian postal system works well as measured by the successful delivery of almost all packages (98.5%). This reliability was proven through the usage of registered mail, whereby a signed receipt confirming delivery was forwarded to HCDP. However, post office personnel appeared unprepared for mass mailings, and the exact requirements for acceptance sometimes varied depending upon the postal clerk on duty. Similar projects in Hungary and other Central or Eastern European countries would be well advised to allocate significant time up-front to discover what specific requirements exist.

List Development, the first phase of the distribution project, was not complicated. Budapest has a variety of sources from which to create a list of businesses, professional firms, and other organizations. These sources are the outcome of a well-developed information network, shared among a variety of organizations. The HCDP staff extrapolated company and contact names from sources including various Chambers of Commerce, the Hungarian Book of Lists, membership lists from professional societies (with permission), and personal contacts. Many other Eastern and Central European countries may not have as reliable sources as are currently available in Hungary.

The Telephone Screening phase, the second phase of the direct mail program, proved to be one of the primary reasons for the success of the program. Its contribution to program success is directly linked to list development. As described above, the List Development phase comprised the collection and database entry of available addresses that appeared to be relevant to the project's objective. In addition to reducing the initial 517 pool of potential recipients to a targeted 471, the Telephone Screening phase resulted in making changes to well over 75% of the 471 addresses. Any other CD-ROM direct mail project should have a Telephone Screening activity prior to the mass mailing.

The HCDP Toolbox was provided only in a CD-ROM format. Fortunately, most organizations in Hungary have both CD-ROM and 3 1/4" diskette drives. Top-of-the-line computer equipment, which includes the CD drive, appears to be the norm in the Hungarian business community. HCDP did not experience any problems by offering only the CD-ROM format. Regional distribution of the Toolbox in electronic form would require preliminary research to determine which format, the CD-ROM or the 3 1/4" diskette, would be most useful. Note that if another project determined to use 3 1/4" diskettes in place of one CD ROM, it would require approximately five to six diskettes, the result possibly leading to a more complicated mass mailing program.

Of the 464 CD-ROMs mailed and delivered, 194 were outside of Budapest. Given the distance, and the fact that the CD-ROM proved to be easy to install and use, most recipients residing outside Budapest believed that traveling to Budapest for the training session was unnecessary. In another project where training on a more complicated or substantive topic was essential, it would be wise to conduct the CD-ROM mailing from a national headquarters, but offer training sessions from "inter-regional centers" so that all targeted recipients would be more willing to travel to a training session.

The Telephone Confirmation phase of the direct mail program added a human element to a relatively non-personal direct mail program. Exchanges via telephone elicited many positive responses, many of which are included in the comments attached to this report. From these conversations, personal invitations facilitated achieving 14% attendance for the training sessions. In the direct mail business, this level of positive response is significant and, therefore, suggests that the Telephone Confirmation activity was very worthwhile and should be considered for incorporation into other direct mail programs.

All Training Sessions were carried out with success. As noted above, ease of using the CD-ROM was a primary reason stated for non-attendance. For recipients living in the Budapest area, many also reported ease of use, and in fact many were already using the CD-ROM by the time they attended the training session. The Training Sessions were dominated with technical questions regarding the usage of Microsoft Power Point, a software program necessary to understand in order to make full use of the CD-ROM. Business people in Hungary are competent enough in Power Point to utilize the CD ROM; projects in other countries may wish to determine how much "software education" is required prior to mass mailing the Toolbox.

The entire issue of distributing the "product" of a USAID project should be addressed at the project planning stage. This ensures that appropriate resources for the distribution will be properly allocated from the beginning. More importantly, the "product" can be promoted throughout the project, not just in the final distribution phase. And the method of distribution can be planned and prepared (e.g.: list development) over a longer period.

It is recommended that any or all-possible legal issues be discussed and decided upon before engaging in a CD-ROM direct mail program. These legal issues encompass a varied and wide range, from rights to commercial distribution to intellectual property rights. The legal issues would need to be reviewed on a country-by-country basis.

Recommendations on Methods of Distribution

Given the one-month time period in which to implement this CD-ROM distribution project, mailing the CD-ROM with a direct mail piece and following-up with a telephone confirmation call was the best strategy. With more time, alternative methods of distribution could be considered, and these are addressed below.

If the Hungarian postal system were less reliable, an alternative strategy would be to distribute the CD-ROM at the training sessions. However, a longer period of time would be necessary to properly market the HCDP Toolbox to create awareness, elicit interest, and stimulate desire to attend a training session to receive a Toolbox CD-ROM. The total time to implement such a method of distribution is contingent upon the specific country and its postal service.

Another manner in which to distribute the Toolbox is through trade shows and other such events, including monthly meetings held by associations or professional organizations. Direct access to membership and targeted recipients is thereby ensured.

Distributing the Toolbox by advertising via traditional media vehicles (newspaper, magazine, etc.) is also a possibility. This alternative would be best implemented if the human resources available for the distribution program are low (HCDP had two expatriates and three FSNs working full-time, with 12 days total for part-time FSNs).

A sophisticated method to distribute the CD-ROM could be through cross-promotion. This requires a partner (with the funded project and USAID) to distribute the Toolbox along with the partner's product or message. The partner shouldn't be a commercial enterprise, but rather a foundation or other not-for-profit organization that would agree to a short-term, intense effort. This may require lead-time to develop a mutually respectful business relationship first.

Another possibility is to establish a web-site on the Internet and let interested people download the software for free. This was done for a similar AID-funded project in Russia. This alternative method of distribution would require some amount of marketing and advertising to create awareness of, and interest in, the web-site. Set-up and maintenance costs would need to be investigated on a country-by-country basis. One advantage of such a method is that it provides an on-going focal point (as long as the web-site is maintained) for distribution. Once HCDP's CD-ROMs are distributed and its office closes, the momentum for further distribution is lost.

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Verbatim Comments

1. "I like the structure of it [the CD-ROM]."
2. "It is very easy to use."
3. "I really like it [the CD-ROM]."
4. "I'm absolutely interested in it." 2x
5. "Thank you very much."
6. "I'm going to write a thank-you letter to you."
7. "We've starting working with it, and it's really easy to use."
8. "It seems that it's very useful and will be helpful to us."
9. "We are dealing with exactly these kinds of issues."
10. "I just borrowed it from a friend, but I want one for myself."
11. "I work at a bank. Maybe we can have this, too."
12. "It would be very useful to give training sessions on the Toolbox material in the countryside, at the Universities."
13. "I plan to incorporate the material in the CD-ROM into my lessons."
14. "I would like more information about the content of the CD, too."
15. "I hope it will be useful. Congratulations!"
16. "It's very easy to use the Toolbox. Learning about the creation of the Toolbox was very interesting. The objective of the project is noble."
17. "I think it will be useful for education and consulting."
18. "Unfortunately, not all the enterprises and firms have the computer background to use the Toolbox."
19. "It can be used in Education."
20. "After this project ends, where can I get technical assistance?"
21. "I would like to say thank you in the name of my colleagues for the invitation, and thank you very much for the Toolbox, which will provide great professional assistance to those who get a chance to know and use it."
22. "It's really simple to use it [the Toolbox]."
23. "Thank you and good luck for the future."
24. "It's really valuable, and thank you to the US Government!"
25. "I have installed Windows '95 in order to be able to use the Toolbox CD ROM and I am going to install Office '97 also as it could be a useful tool to make tailored presentation materials."
26. "I would look forward to the continuation [of the project], new versions, and special versions about various professional fields."
27. "It would be very useful to have this CD ROM forwarded to Hungarian universities, colleges, and institutes. This would greatly enhance the effectiveness of the education, and it would be of great help to the teachers because it would provide them with up-to-date information."
28. "If it would be possible, I would like to have future additions and improvements on the CDs."